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United States General Accounting Office

Report to the Chairman, Board of
Directors, Export-Import Bank of the
United States

February 1988

COMPLETED

EXPORT CREDIT INSURANCE

Industry Participants' Views



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-227687

February 1, 1988

Mr. John A. Bohn, Jr.
Chairman, Board of Directors
Export-Import Bank of the United States

Dear Mr. Bohn:

In September 1987, we reported to the Congress on the results of our review Export Credit Insurance: Assessment of the Export-Import Bank's Role (GAO/NSIAD-86-189). As part of that review, we surveyed present and former Foreign Credit Insurance Association (FCIA) member firms and policyholders, major insurance brokers, and private underwriters of export credit insurance to gain an understanding of the market and an outside perspective of the program's operations.

This report provides selected information not previously available which we believe may be useful in your management of the program. Appendix I outlines our data collection objectives, scope, and sampling methodology. Appendix II analyzes questionnaire survey responses from exporters and financial institutions holding FCIA insurance policies. Appendix III summarizes pertinent information obtained from former FCIA policyholders, current and former FCIA members, insurance brokers, and private insurers.

The information in this report is summarized from the views and opinions expressed by industry participants. Therefore, we did not request official agency comments. However, we discussed the information in this report with Export-Import Bank and FCIA officials.

Copies of this report are being furnished to FCIA, those industry participants whose opinions are represented, the Office of Management and Budget, and other interested parties. If you have any questions, please feel free to call me at (202) 275-4812.

Sincerely yours,

Allan I. Mendelowitz
Senior Associate Director

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Abbreviations

FCIA	Foreign Credit Insurance Association
GAO	General Accounting Office

Objectives, Scope, and Methodology for Export Credit Insurance Industry Participant Surveys

We conducted industry surveys to gain an understanding of the export credit insurance market and the perspectives of industry participants familiar with the operations of the Export-Import Bank (Eximbank) insurance program. This program has been administered by Eximbank's agent, the Foreign Credit Insurance Association (FCIA). We surveyed present and former FCIA member firms that supplied the insurance through their risk participation in the Association; policyholders that purchased the insurance; major insurance brokers that sold the insurance; and private insurers that competed with FCIA. Our surveys were done from January to May 1987.

Questionnaire Survey of FCIA Policyholders

We mailed questionnaires to all 165 financial institutions and a randomly selected sample of 167 of the 825 exporters insured by FCIA during the 6-month period from April through September 1986. The questionnaires requested information about these policyholders' export business, reasons for obtaining export credit insurance, satisfaction with FCIA service, and future insurance needs.

We received completed questionnaires from 128 of the financial institutions, for a response rate of 78 percent. Seven of these respondents said that their policies expired prior to the period covered by our study; therefore, we excluded them from our analysis. An average of 4 percent of the questions used in the analysis were not answered by respondents. Based on our analysis of nonresponse rates, we believe the results of our survey adequately represent the views of the financial institutions insured by FCIA during the 6-month period.

We received 129 completed questionnaires from the exporters, for a response rate of 77 percent. Fifteen of these respondents said that their policies expired prior to the period covered by our study; therefore, we excluded them from our analysis. Based on statistical probability, we are 95 percent confident that the percentages we report reflect the views of exporters insured by FCIA within ± 9.1 percent unless otherwise noted.

Interviews With Former FCIA Policyholders

We asked former FCIA policyholders why they terminated their insurance coverage, how they assessed the quality of FCIA service, and what they anticipated their future insurance needs would be. FCIA records showed that 174 policyholders terminated their FCIA insurance in calendar year 1986. From that list, we selected a random sample of 82 former policyholders. We were able to contact 64 of these firms, of whom we

excluded 11 that reported they had current FCIA policies, and we interviewed representatives of 53. Based on the number of interviews obtained, we are 95 percent confident that the results of this survey reflect the views of former policyholders who terminated their FCIA insurance in calendar year 1986 within $\pm$ 11.0 percent.

Interviews With Current and Former FCIA Members

We interviewed representatives of the 4 current FCIA member firms and selected former member firms for their views on FCIA operations. This included their reasons for initially joining FCIA, reasons for terminating their membership (former members only), and interest in renewing risk participation in the Association.

We interviewed 30 of the 38 former member firms that had withdrawn from the Association since October 1982. We selected these 38 firms from the universe of 73 former members because they had recent knowledge of FCIA operations and included many of its largest risk participants. We did not interview the remaining 8 firms because we were unable to identify officials in those firms who had a current knowledge of FCIA.

Interviews With Insurance Brokers

We interviewed the 10 insurance brokers listed below to determine why their clients seek insurance, the advantages and disadvantages of FCIA and private insurance, areas of competition between FCIA and private insurance, and their level of satisfaction with FCIA's services. We based our broker selection on the amount of FCIA commissions paid from April to September 1986; these brokers received about 97 percent of the commissions paid by FCIA. Nine of these brokers also placed clients with private export credit insurers.

- Alexander & Alexander, Inc., New York, New York
- Boger & Reid, Atlanta, Georgia
- Credit International Associates, Inc., New York, New York
- Export Credit Insurance Associates, San Francisco, California
- Export Insurance Agency, Inc., Walpole, Massachusetts
- Intercredit Agency, Inc., New York, New York
- International Insurance Associates, Downey, California
- Johnson & Higgins, New York, New York
- Marsh & McLennan Inc., New York, New York
- Rollins Burdick Hunter Co., Chicago, Illinois

Interviews and Other Data Gathering— Private Insurers

We interviewed and/or obtained written information from private underwriters of export credit insurance to ascertain the types of insurance they are providing, their approach and general methods of operation, factors affecting their capacity and willingness to provide insurance, and their views on the role of the government in this business.

We identified 8 U.S.-based export credit insurance underwriters through information provided by a private consultant and interviews with insurance brokers. We interviewed six of these underwriters and obtained written information from the other two firms.

- American Credit Indemnity Co., Baltimore, Maryland
- American International Underwriters (a division of AIG), New York, New York
- Citicorp International Trade Indemnity, Inc., Woodcliff Lake, New Jersey
- CIGNA Worldwide, Inc., Philadelphia, Pennsylvania (written comments)
- Global Special Risks, Inc., Dallas, Texas
- Professional Indemnity Agency, Pleasantville, New York
- Trade Credit Underwriters, Inc., New York, New York (written comments)
- Universal Investment Consultants, Ltd., New York, New York

Global Special Risks, Inc., Professional Indemnity Agency, and Universal Investment Consultants, are underwriting general managers for other insurers. These firms, subject to specified guidelines, administer the insurance on behalf of the primary insurance firms.

Citicorp, Global Special Risks, and Professional Indemnity Agency were beginning operations at the time of our review. CIGNA and Trade Credit Underwriters ceased underwriting export credit risks in 1986.

Policyholders' Questionnaire Survey Results

In our surveys, the questions we asked exporters and financial institutions were not the same because of differences in the nature of their policies. Within the exporters group, we discuss "small businesses" (as defined by FCIA using the Small Business Administration's criteria) separately when their responses differed significantly from those of the group as a whole. We based our percentages on the number of responses to each question, minus unusable responses. In figures and tables the number of usable exporter or financial institution responses are noted by "n=".

FCIA Policyholder Profile

We characterized exporters and financial institutions by their years of experience, size (exporters only), and type of exports. In 1986, exporters generally had 5 years or less of experience with FCIA, revenues of less than \$26 million, exports of less than \$5 million, and primarily exported manufactured goods.

Experience

FCIA began operations 25 years ago. At the time of our surveys, both exporters and financial institutions had an average of about 7 years experience doing business with FCIA. About 50 percent of both groups had held policies for 5 years or less, as shown in figure II.1.

Figure II.1: Policyholders' Experience With FCIA



Size

We categorized exporters by their 1986 total U.S. revenues. (See table II.1.) The average revenue of the respondents was about \$80 million. FCIA data indicated that 68 percent of these exporters are small businesses. Revenue data for exporters supported indirectly by FCIA through financial institutions' insurance policies were not readily available.

Table II.1: Revenues of Exporting Firms

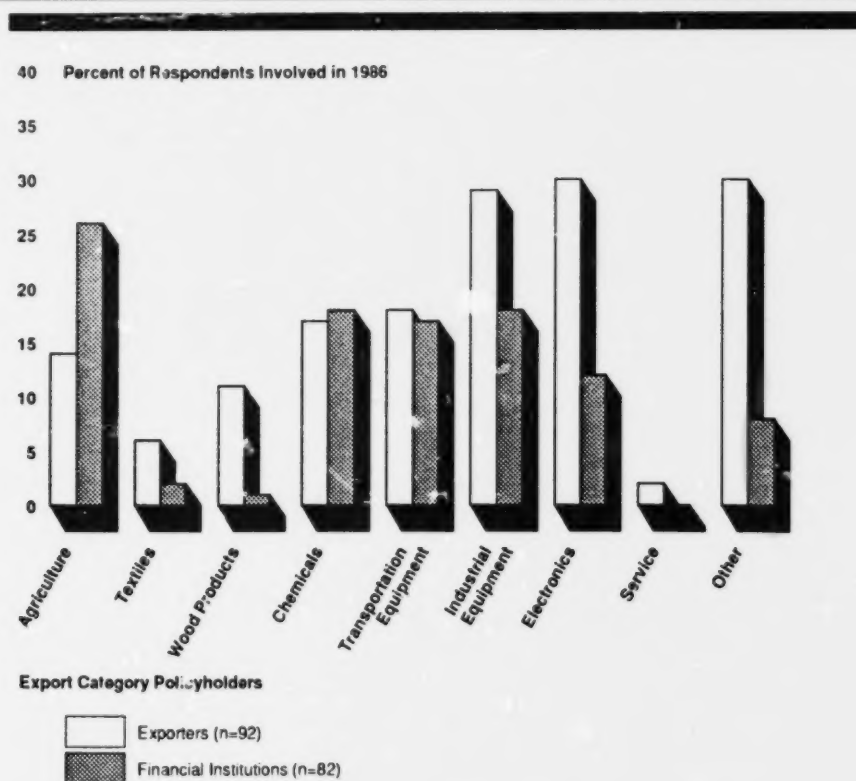
Revenue	Policyholders (percent of respondents)
\$100,000 to \$11 million	50
\$12 million to \$25 million	17
\$26 million to \$99 million	15
\$100 million to \$1.5 billion	18
Total	100 (n=101)

We also categorized exporter policyholders by the value of their firms' total exports in 1986: almost 24 percent of the respondents exported goods and services having a total value up to \$1 million; 41 percent had from \$1 million to \$5 million; 13 percent had from \$5 million to \$10 million; 13 percent had from \$10 million to \$20 million; and 10 percent had greater than \$20 million to a maximum of about \$1.2 billion. Overall, the firms reported average exports of \$31 million in 1986.

Export Type

Figure II.2 shows the number of policyholders involved in each export category. Exporters in our sample most often insured sales of electronics (i.e., computers and office, scientific, or photographic equipment) and

Figure II.2: Policyholders by Category of Exports



Totals do not add to 100, multiple answer possible

"Other" category includes home appliances, hardware medical equipment, and raw materials.

industrial or farm equipment. Financial institutions most often insured financing for sales of agricultural goods including food products.

Reasons for Obtaining Export Credit Insurance

Export credit insurance protects policyholders against various risks that foreign buyers will not pay for exports. We asked exporters and financial institutions about the importance of several factors in their overall decision to obtain export credit insurance. Exporters responded that the desire to expand export activities was the most important factor, followed by concern about the commercial risk of exporting to foreign countries and the need to have insurance to secure bank financing. (See table II.2.)

Small business exporters indicated that they considered financing more important than risk considerations in their decision. In their written comments, several exporters said that FCIA insurance allowed them to accept buyers' credit terms that they would otherwise consider too risky.

Table II.2: Reasons for Obtaining Export Credit Insurance-Exporters

Reason	Degree of Importance (percent of respondents) ^a				
	Not relevant	Little or no	Some to moderate	Very to crucial	
Expand exports	12	11	19	58	n=106
Commercial risk	8	5	32	55	n=109
Help obtain financing	24	21	8	47	n=109
Political risk	9	16	30	45	n=110
Transfer risk	12	21	29	37	n=107
Get more favorable financing	22	27	17	34	n=105
General company policy	18	13	38	30	n=104
Lack of experience with buyer	16	26	34	24	n=107
Uncertainty of buyers' finances	18	23	40	18	n=104

^aPercentages may not total 100 due to rounding.

Financial institutions considered political risk the primary factor in their decision to obtain export credit insurance, followed by serving clients' needs. The financial institutions also rated commercial risk as crucial or very important in their insurance decision. (See table II.3.) Neither "recategorize country risk" nor "internal bank requirement," which concern an institution's attempts to lower its overall exposure to foreign debt, were cited as important reasons.

Table II.3: Reasons for Obtaining Export Credit Insurance-Financial Institutions

Reason	Degree of Importance (percent of respondents) ^a				
	Not relevant	Little or no	Some to moderate	Very to crucial	
Political risk	5	2	6	87	n=118
Service client needs	3	3	11	83	n=117
Commercial risk	6	5	21	68	n=118
Broaden services	8	7	21	64	n=117
Recategorize country risk	17	14	22	47	n=116
Maintain letter of credit business	24	17	27	32	n=112
Internal bank requirement	22	19	26	32	n=114

^aPercentages may not total 100 due to rounding.

Choosing FCIA Coverage

We asked policyholders if they knew there were alternatives to FCIA for export credit insurance. Forty percent of the exporters and 78 percent of the financial institutions knew of export credit insurers other than FCIA.

We then asked these respondents to indicate the reasons why they had chosen FCIA rather than an alternative source for their insurance. Confidence in the backing of the U.S. government and higher political risk coverage were cited as the most important reasons for choosing FCIA. In addition, exporters cited higher overall coverage limits. Broker recommendation was the least cited reason by both groups. (See tables II.4 and II.5.)

Table II.4: Reasons for Choosing FCIA-Exporters

Reason	Degree of Importance (percent of respondents) ^a				
	Not relevant	Little or no	Some to moderate	Very to crucial	
Confidence in U.S. government backing	11	4	33	51	n=45
Better coverage limits	11	18	22	49	n=45
Higher political coverage	20	7	27	47	n=45
Better premium rates	18	9	29	44	n=45
More reliable	20	9	29	42	n=45
Willing to cover smaller policies	20	18	22	40	n=45
Better service	22	24	27	27	n=45
Better country coverage	36	20	18	27	n=45
More acceptable to financiers	36	31	11	22	n=45
Private insurance not available	49	27	7	18	n=45
Broker recommendation	44	29	16	11	n=45

^aPercentages may not total 100 due to rounding.

Table II.5: Reasons for Choosing FCIA-Financial Institutions

Reason	Degree of Importance (percent of respondents) ^a				
	Not relevant	Little or no	Some to moderate	Very to crucial	
Confidence in U.S. government backing	9	3	10	79	n=94
Higher political coverage	16	1	14	69	n=94
More reliable	21	14	14	51	n=94
Willing to cover smaller policies	34	10	12	45	n=94
Better premium rates	26	9	28	38	n=94
Better country coverage	39	12	17	32	n=94
Private insurance not available	49	14	13	24	n=94
Better coverage limits	43	16	26	22	n=94
Better service	31	15	34	20	n=94
Broker recommendation	57	30	10	3	n=93

^aPercentages may not total 100 due to rounding.

Choosing Non-FCIA Coverage

We also asked policyholders about their choices to purchase export credit insurance from sources other than FCIA. Of 112 exporters responding to this question, only 1 also had non-FCIA insurance, whereas 13 of the 121 financial institutions responding (11 percent) also had non-FCIA insurance. Table II.6 shows the reasons these financial institutions indicated for obtaining non-FCIA insurance for some of their business. Several policyholders also provided written comments which expressed

concern about the policy restrictions and high premium costs of FCIA coverage.

Table II.6: Reasons for Obtaining Non-FCIA Insurance -Financial Institutions

Reason	Degree of importance (number of respondents)				Total
	Not relevant	Little or no	Some to moderate	Very to crucial	
Policy tailored to needs	3	1	1	8	13
FCIA does not cover countries	3	0	3	7	13
FCIA does not cover products	4	3	0	6	13
Quicker service	4	2	4	3	13
More favorable rates	5	3	2	3	13
FCIA does not cover risks	4	4	3	2	13
Less paperwork	4	2	6	1	13
More reliable	6	4	2	0	12
Broker recommended	8	4	0	0	12

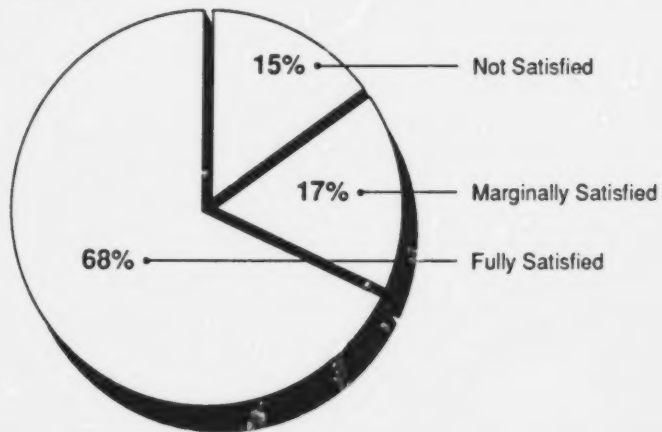
Financial institutions were more knowledgeable than exporters about alternatives to FCIA, and their responses indicated that they use other insurers when FCIA cannot meet their needs. However, neither group of policyholders used alternatives to FCIA very often, perhaps because of the importance of their confidence in the backing of the U.S. government as a reason for choosing FCIA (as shown in tables II.4 and II.5).

Satisfaction With FCIA Service

We asked policyholders about their satisfaction with FCIA service and for their opinions on the reasonableness of the information FCIA required. We also asked individual questions concerning requests for increases in credit limits and claims. Overall, respondents were satisfied with FCIA's service, as shown in figure II.3.

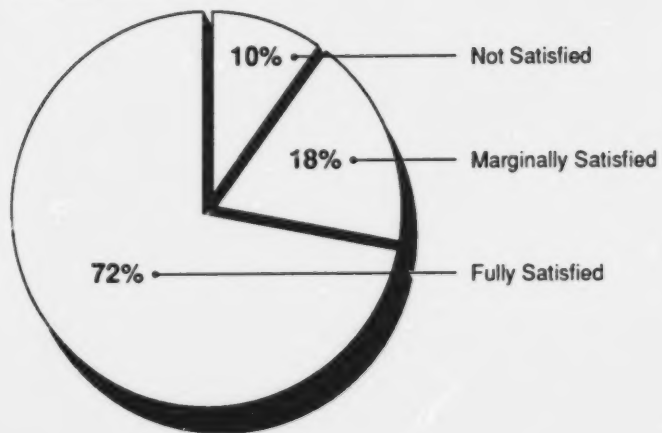
Figure II.3: Overall Satisfaction With
FCIA Service

Exporters



(n=107)

Financial Institutions

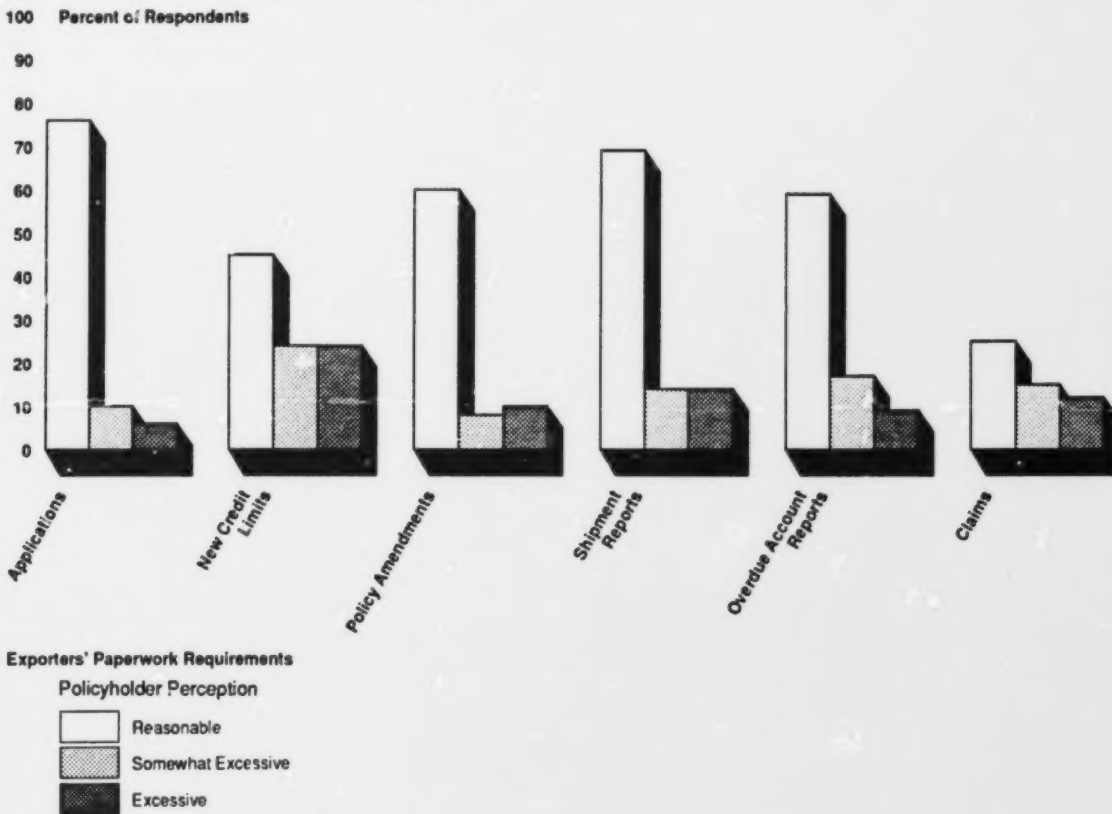


(n=115)

Appendix II
Policyholders' Questionnaire Survey Results

Generally, respondents considered FCIA paperwork requirements reasonable. (See figure II.4.) Exporters were principally concerned about excessive paperwork required for requests to increase discretionary credit limits of existing policies. Financial institutions' primary area of dissatisfaction concerned claims requirements. Exporters and financial institutions also provided written comments concerning FCIA's service. Specifically, some had complaints concerning inaccurate and confusing communication of the terms and conditions of coverage and a lack of timeliness in processing paperwork.

Figure II.4: Reasonableness of Paperwork Requirements



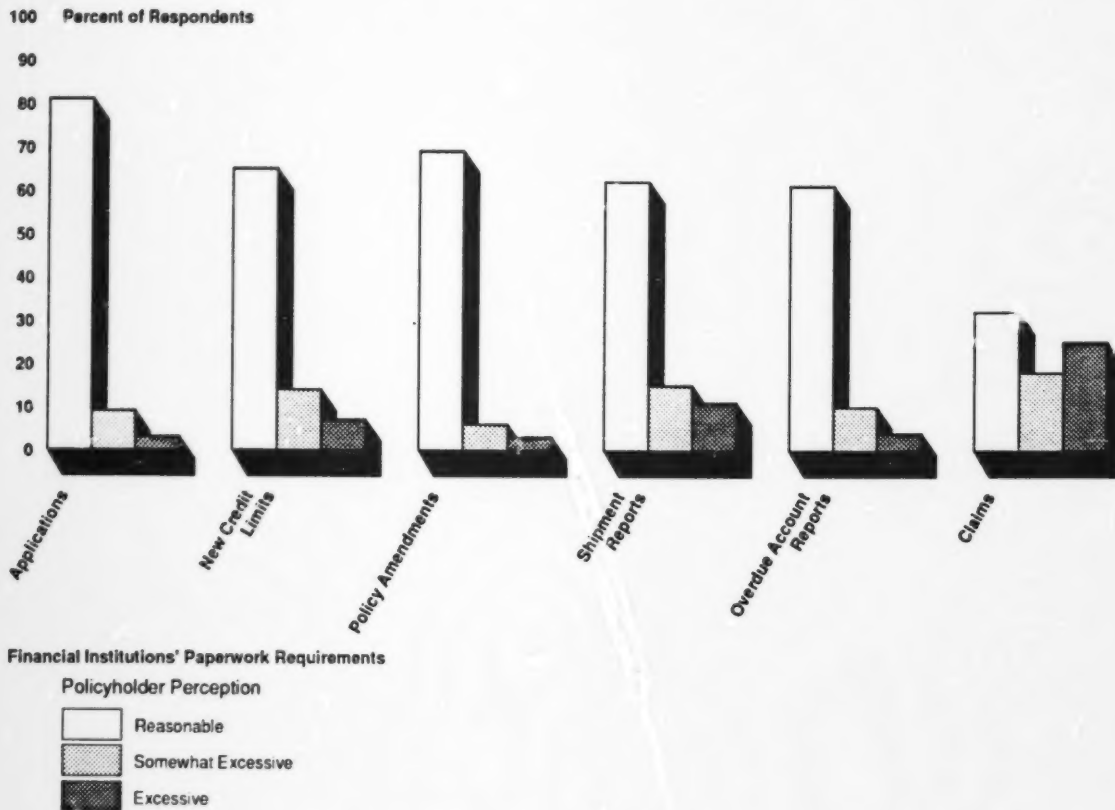
Note: Percent of respondents with no basis to judge are not shown

Service on New Credit Limit Requests

Seventy-four percent of exporter policyholders and 58 percent of financial institution policyholders had applied for new credit limits. On average, exporters reported response times of 29 days and financial institutions reported 32 days. Although most respondents received an answer within a month, many reported that answers took longer. (See table II.7.)

Appendix II
Policyholders' Questionnaire Survey Results

Figure II.4: (Continued)



Note: Percent of respondents with no basis to judge are not shown

Table II.7: Processing Times for New Credit Limit Requests

Policyholder	Number of days to receive answer (percent of respondents) ^a				
	0-15	16-30	31-45	46+	
Exporters	35	39	10	15	n=71
Financial institutions	31	36	16	17	n=58

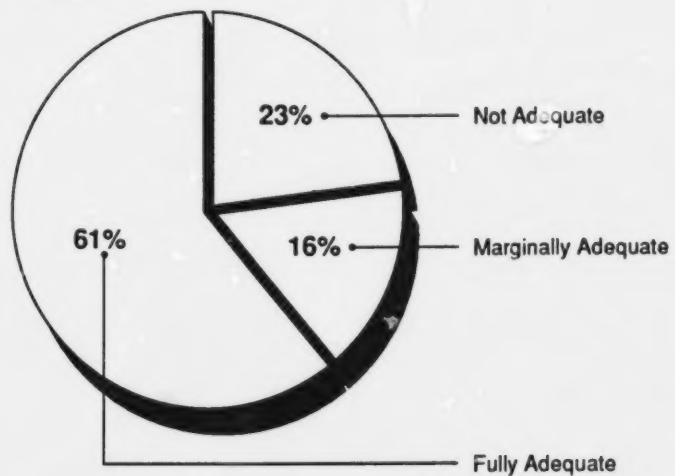
^aPercentages may not total 100 due to rounding.

Figure II.5 shows exporters' and financial institutions' opinions about the adequacy of the above response times.

Appendix II
Policyholders' Questionnaire Survey Results

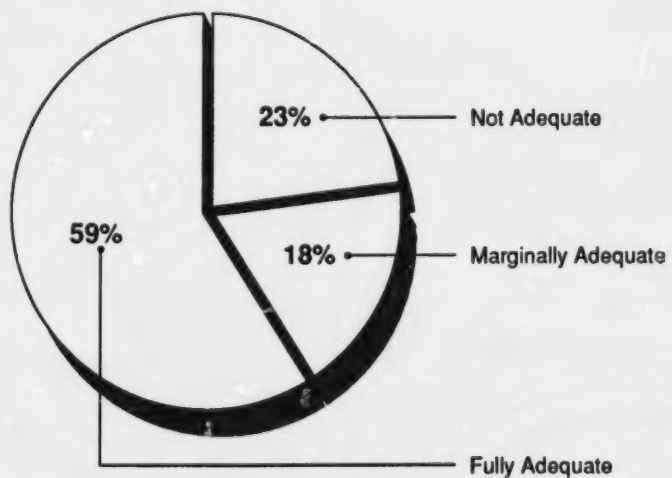
Figure II.5: Adequacy of FCIA Service on
Requests for New Credit Limits

Exporters



(n=80)

Financial Institutions



(n=70)

Claims Service

Thirty percent of the 113 exporter respondents and 36 percent of the 121 financial institution respondents had filed claims. Only 19, or 24 percent, of the 78 small business exporters responding filed claims. Table II.8 shows claim settlement times. According to these respondents, exporters' claims, on average, took over 10 months to settle, whereas financial institutions' claims averaged 3 months.

Table II.8: Claims Settlement Times

Policyholder	Months (number of respondents)				Total
	1-3	4-6	7-12	13+	
Exporters	16	4	4	5	29
Financial institutions	21	7	5	0	33

Figure II.6 shows these respondents' level of satisfaction with claims settlement times. Forty-seven percent of exporters and 55 percent of financial institutions were fully satisfied with FCIA's claims service. Small business exporter respondents were less satisfied with claims service than were exporters as a whole—only 5 of the 17 small businesses were fully satisfied.

Policyholders' Insurance Needs

We asked policyholders if they needed higher coverage limits in 1986 than they received from FCIA. Thirty-two percent of the 110 exporters responding and 10 percent of the 119 financial institutions responding said that they did. We then asked these respondents to identify the obstacles to receiving these additional limits. Responses are summarized in table II.9. Obstacles in the "other" category included restrictive policy terms and conditions and administrative burden.

Table II.9: Obstacles to Higher Coverage Limits

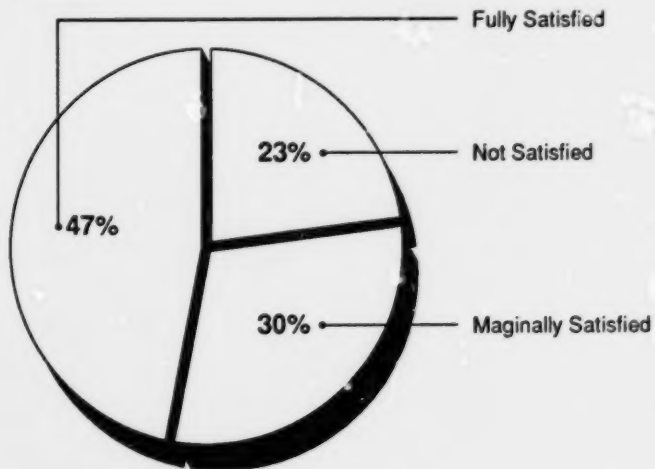
Obstacle ^a	Number of Respondents	
	Exporters (n=35)	Financial institutions (n=16)
Not available at a reasonable cost	8	7
Country credit limits	19	7
Buyer credit limits	18	4
Other	8	10

^aMore than one type of obstacle may apply for each respondent.

We asked exporters what percentage of their exports, and financial institutions what percentage of their export financing, would not have proceeded if FCIA insurance were not available. On average, exporter

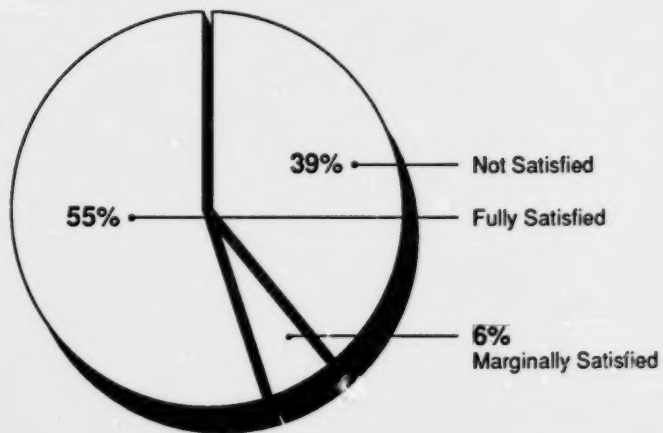
Figure II.6: Satisfaction With FCIA Claims Service

Exporters



(n=30)

Financial Institutions



(n=33)

respondents said that the unavailability of FCIA insurance would cause 17 percent of their insured export shipments to be halted and an additional 18 percent placed in doubt. Financial institution respondents said that an average of 71 percent of their insured export financing would be halted and an additional 14 percent placed in doubt.

At the extreme, 33 percent of the exporters said that none of their sales would be halted nor made questionable if FCIA insurance coverage was withdrawn, whereas only 3 percent of the financial institutions' financing would not be affected. In contrast, 63 percent of the financial institutions and 15 percent of the exporters said that all of their financing or exports would be halted or placed in doubt.

Future Insurance Needs

Policyholders were asked how important export credit insurance is to future export growth. Both exporters and financial institutions considered FCIA insurance important, as shown in table II.10.

Table II.10: Importance of FCIA Insurance to Future Export Growth

Policyholder	Degree of importance (percent of respondents) ^a			
	Little or no	Some to moderate	Very to crucial	
Exporters	16	39	45	n=111
Financial institutions	7	37	57	n=115

^aPercentages may not total 100 due to rounding.

Finally, we asked policyholders to project their insurance needs for 1987. (See table II.11.)

Table II.11: Projected 1987 Insurance Needs

Policyholder	Insurance needs (percent of respondents) ^a			
	More	Same	Less	
Exporters	41	43	16	n=107
Financial institutions	34	55	10	n=116

^aPercentages may not total 100 due to rounding.

Both exporters and financial institutions indicated that they would require the same or more FCIA insurance in 1987 than they needed in 1986. However, it appears that export sales insured by financial institutions are more dependent on FCIA insurance than are those of exporters.

Summary of Interviews With Other Export Credit Insurance Industry Participants

Former FCIA Policyholders

We interviewed 53 former FCIA policyholders¹ to determine why they terminated their insurance coverage and to ask them to assess the quality of FCIA's service and their future insurance needs. Most former policyholders terminated their FCIA insurance because they did not need the coverage. The former policyholders held their FCIA policies an average of 3.4 years; 74 percent of the respondents had maintained FCIA insurance for 4 years or less. Generally, former policyholders were satisfied with FCIA's service and said they would consider using FCIA again, but were not certain whether they would require export credit insurance in the near future.

Reasons for Terminating FCIA Insurance

Former policyholders most frequently cited the lack of policy use as the reason for not renewing or for canceling their FCIA insurance coverage. Another frequently noted reason was policy restrictions—FCIA insurance is restricted by minimum domestic content requirements and limits or prohibitions on countries eligible for coverage. Other former policyholders stated that they no longer needed insurance coverage because of minimal risk (e.g., their buyers do not default on payment). Cost was not often cited as a reason for terminating policies. (See table III.1.)

Table III.1: Reasons for Policy Cancellations

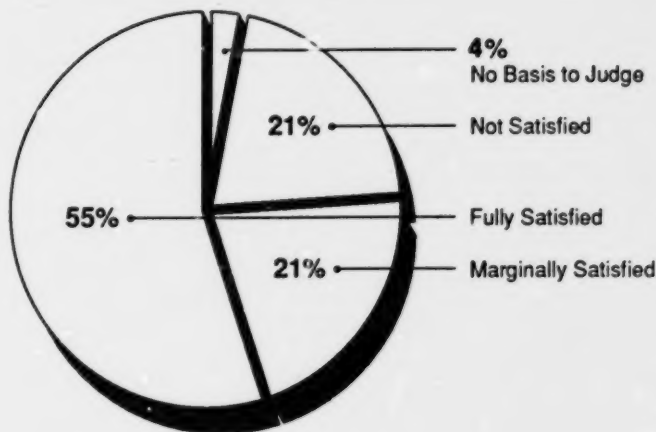
Former Policyholders respondents in Percent	
Reason	Former Policyholders (n=53)
Lack of policy usage	40
Policy restrictiveness	17
Coverage unnecessary because of minimal risk	13
Administrative burden	9
No longer needed for financing	8
Premium rate or minimum too high	4
Terminated by FCIA	2
Other	8

Satisfaction With FCIA Service

Of the former policyholders we surveyed 29, or 55 percent, indicated that they were fully satisfied with FCIA service, as shown in figure III.1. Eleven of the respondents were marginally satisfied with FCIA service and 11 were not satisfied.

¹These policyholders were selected from a random sample of 82 of the 174 policyholders who terminated their FCIA insurance in 1986.

Figure III.1: Former Policyholders'
Satisfaction With FCIA Service



(n=53)

Note: Percentages rounded.

Thirty-seven, or 70 percent, of the respondents indicated that they probably would use FCIA insurance again should the need arise. However, 20 of these 37 respondents did not foresee a need for insurance within the next 2 years. Another 15 indicated that they did foresee a need. Therefore, although the majority of former policyholders would consider using FCIA again, it is not certain whether they would require its services in the near future.

Current and Former FCIA Members

In the early 1980s, all but 4 member insurance firms withdrew from FCIA because of the program's large losses.² We interviewed the 4 current members and 30 former members to determine, among other things, the reasons for joining FCIA, a more complete understanding of why they had terminated their membership (former members), and the likelihood of their renewing risk participation (current and former members).

The former members' responses indicated that the overall losses they incurred caused them to leave FCIA even though public service far exceeded the profit motive as the primary reason they initially joined

²The four member firms agreed to continue their membership on a non-risk participation basis in order to preserve FCIA as a separate entity for operating the export credit insurance program.

FCIA. Furthermore, the current and former members stated that it was unlikely that they would renew their risk participation in FCIA unless there was a reasonable expectation for making a profit.

Reasons for Initial Participation

All 4 current members and 16, or 53 percent, of the former members said public service considerations primarily motivated them to join FCIA. The potential for making a profit was cited as a secondary reason by one of the current members and as the principal reason by 4 of the former members. About 80 percent of the former members indicated that their highest level of risk participation in FCIA had little or no significance compared with their overall business volume. Three firms mentioned that they either felt pressure from the insurance industry to join or otherwise perceived an obligation to support FCIA.

Reasons for Terminating Membership

We asked the former members for the reasons why they terminated their membership in FCIA. We also asked them to indicate the single most important reason for leaving. Most firms left FCIA because of the losses they incurred. Lack of importance to company strategy was also an important reason. Moreover, although 14 firms mentioned unpredictability of claims as a reason, only one cited this as the most important reason. Reasons in the "other" category included concerns about Eximbank's relationship with FCIA and the potential for future losses. Table III.2 summarizes the former members' responses.

Table III.2: Reasons for Terminating FCIA Membership

Reason	Number of firms citing as (n=30)	
	One of several reasons	Most important reason
Overall losses from participation	23	19
Unpredictability of claims	14	1
No longer important to company's strategy	11	6
Other major insurers withdrew	10	1
Dispute over Eximbank's definition of political vs. commercial risks	7	0
FCIA expenses too high in relation to revenues	4	0
Dispute over risk sharing agreements	3	0
Disagreements over FCIA policy and strategy	3	0
Began writing insurance independently	2	1
Disagreements over management issues	2	0
Other	10	2

Likelihood of Renewing Risk Participation

We asked current and former members whether they would renew risk participation in FCIA, and under what circumstances. All 4 of the current members stated that under present conditions they were unlikely to renew risk participation. Two of the 4 firms said that a reasonable expectation of profit would be a condition for renewing participation, and one member cited greater member control over FCIA policy—particularly with regard to underwriting decisions—as a condition. The fourth member stated that it would not renew its risk participation under any conditions.

Similarly, 83 percent of the former members indicated that they would be unlikely to renew risk participation in FCIA. Regarding the circumstances under which they would consider rejoining the Association, about half of the former members stated that a reasonable expectation of profit was a necessary condition. Another condition cited by 23 percent of former members was greater control over FCIA policy. However, almost half of the former members indicated that they would not renew their participation under any circumstances.

Insurance Brokers

We interviewed 10 major export credit insurance brokers to obtain information concerning their experience and relationship with FCIA, the advantages and disadvantages of FCIA and private export credit insurance, and areas of competition between the public and the private sectors. Brokers indicated that both sectors had distinct advantages, but there were areas of competition.

Experience With FCIA

The firms' export credit insurance brokerage experience ranged from 5 to 29 years and averaged about 17 years. On average, brokers placed about 65 percent of this business with FCIA; the remaining 35 percent was placed with private insurers. The amounts of business placed with FCIA ranged from 25 percent to virtually all of a firm's export credit insurance.

When asked why their clients seek export credit insurance, the brokers said it helps their clients to obtain financing, provides general risk protection, and helps them to compete overseas and expand their export sales.

Advantages and Disadvantages of FCIA

We asked the brokers to compare the offerings of FCIA with private insurers.³ The brokers gave their views on the advantages and disadvantages of FCIA and the private insurers. Table III.3 ranks the advantages of each by the number of times they were mentioned. It should be noted that brokers cited better terms and conditions and countries covered as advantages for both FCIA and private insurers; these responses reflect their customers' particular needs.

³In listing all the sources of export credit insurance, the brokers noted a total of 15 private insurers that they either knew about or used. However, 5 insurers (American International Underwriters, CIGNA, Lloyds of London, Pan Financial Resources of London, and Universal Investment Consultants) were most frequently mentioned.

**Table III.3: Brokers' Comparison of FCIA
and Private Insurance**

Advantages of FCIA insurance over private insurance

Favorable terms and conditions
Lower deposits or minimum premiums
More acceptable for financing
Better for small businesses
Countries open for coverage or offered more capacity
Service

Advantages of private insurance over FCIA insurance

Better terms and tailoring of policies
Countries open for coverage
Fewer eligibility restrictions
No domestic content requirements nor restrictions on products
Less administrative burden
Pre-shipment coverage includes contract cancellation
Can lock in country coverage limits for policy year

When comparing disadvantages, brokers said that FCIA's disadvantages stem from its country restrictions, the administrative burden placed on policyholders, and the inflexibility of its policies. The brokers thought private insurers' main disadvantages were their higher premiums, deductibles, and minimum business requirements.

Areas of Competition

The brokers also noted areas of competition between FCIA and private insurers in the types of policies offered and clients served. (See table III.4.)

**Table III.4: Areas of Competition
Between FCIA and Private Insurers**

Types of Policies

Comprehensive and whole turnover policies
Single sale policies
Lease policies
Medium-term policies

Types of Clients

Large firms and more established exporters
Clients selling goods having 50 percent or more domestic content
Other (sales to foreign governments, clients paying large minimum premiums)

Generally, FCIA and private insurers compete for the business of large experienced exporters. Brokers noted no competition relating to FCIA's

financial institution and small business clients or private insurers' specialty insurance policies.

Private Insurers

We interviewed and/or received written comments from eight private underwriters of export credit insurance to learn about the types of insurance they are providing, their approach to underwriting and policy administration, and factors affecting their insurance capacity. We also requested their views on the role of the federal government in providing export credit insurance. Three of the 8 firms we interviewed or received comments from, had just begun operations and 2 others had discontinued underwriting export credit risks in 1986.

Generally, private insurers used a different underwriting approach than FCIA, had less insurance capacity than FCIA, and believed the government should only be active in those areas of the insurance market where they were not. Unless otherwise noted, the information below reflects the views and opinions of a majority of the private underwriters.

Underwriting Approach

The underwriting approach private insurers use tailors policies and coverage to meet their customers' needs while minimizing paperwork and policy administration requirements. The firms maintain small staffs ranging from one to nine professionals and rely almost exclusively on brokers to market their insurance products. Most firms have minimum premium requirements, but these are sometimes negotiable. The private insurers tend to minimize reporting requirements and determine premiums annually based on coverage limits as opposed to charging premiums on each shipment as does FCIA. Private insurers also require greater risk retention (through coinsurance and deductibles) and lengthy waiting periods (waiting time before a claim can be filed) to ensure that the exporter makes all reasonable collection efforts before filing a claim.

Underwriting techniques vary depending on whether commercial or political risks are being insured. Most firms perform their own risk analysis, but they also rely on outside sources of credit information. Insurers of political risks are less concerned about a buyer's creditworthiness than about the buyer's political or economic importance to its country (e.g., a national utility or oil company). Private firms also prefer to insure certain products over others, since they believe higher repayment risks are associated with purchases that do not have a high national

priority. Moreover, private insurers prefer not to insure financial institutions as clients because they are perceived to be at additional risk of having their debts rescheduled by foreign governments.

Factors Affecting Capacity

All firms cited the availability of reinsurance as the principal factor affecting their capacity. Some companies also place internal limits on their underwriting capacity. Capacity limits for the firms interviewed ranged from \$2.5 million to \$10 million per risk insured. Most firms insured a portion of the risks themselves and relied on reinsurance arrangements to provide additional per-risk and per-country insurance coverage. Three of the private insurers noted that export credit reinsurance was primarily available from overseas rather than domestic sources.

Government's Role

Private insurers believed that the role of the federal government should be to fill the gap in various segments of the export credit insurance market that are considered to be too risky or too small to be profitable. These segments of the market include very large transactions, risky countries, and small businesses. One private insurer commented that although U.S. exporters need the capacity offered by the Eximbank to match other countries' programs, there was no need for FCIA to administer the insurance when the private insurance industry's infrastructure was available. Another believed that FCIA should be an insurer of last resort.

Half of the private insurers we interviewed expressed concern over the advantage that the government has in terms of the competitive rates it can offer. Six of the 8 firms believed that private industry's export credit insurance capacity could be enhanced greatly through the provision of reinsurance by Eximbank. One firm stated, however, that such reinsurance in and of itself would not stimulate private insurance companies to offer export credit insurance.

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